

## FINANCIAL MANAGEMENT IN SCHOOLS: THE CONVENTIONAL AND THE ISLAMIC PERSPECTIVE

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### ABSTRACT

The core responsibility of the school systems is to educate the learners in an effective manner and in the areas, that are most relevant to them. This, however, cannot be achieved unless all departments and functions act in a coherent manner. Financial management, one of the key functions of management, also plays a critical role in school governance as a policy imperative that requires active participation from the relevant stakeholders. The governing body members and teachers are required to ensure that the school budget responds to classroom-learner needs and parents' interests. School leadership has to ensure that the resources are made available in line with the budgeted activities. Community and government govern the important educational aims and requirements which feed into the budgeting process. Therefore, the involvement and inputs from stakeholders are inevitable for an efficient management of school's financial management system. It is these inputs that set the guiding principles for managing school funds. If the principles formulated in this regard are not sound or are not implemented appropriately, many schools can head for situations that could ultimately affect their educational aims negatively and result in lack of achievement of their key deliverables. We have seen some recent administrative failures in schools which come down to poor financial management and poor project planning skills. This accordingly needs to be tackled with appropriate training, as well as policy building and ownership. Considering the importance of these aspects, the current paper unravels the key elements of financial management in schools from conventional as well as Islamic perspective. Eleven key financial management aspects have been highlighted in this paper based on examples from the seerah and the way of the companions of the Prophet ﷺ.

**Keywords:** Financial management, principal's role, Governing body's role, Teacher's participation, Islamic perspective

### 1. INTRODUCTION

While browsing through the news, we can easily find the stories of many school failures. Many a times, it is because of the poor management practices. Some school headteachers have recently been arrested and others interdicted due to the issue of embezzlement and misappropriation of funds. With this kind of experience, some of the known schools have completely collapsed. These issues led to staff relocations in many instances often resulting in disturbance of management patterns and shift in staff competencies. Unfortunately, heads of many schools failed to fulfil the assignments given to them by the stakeholders. Some administrators squandered the money with no outputs being achieved against the projects identified in the school calendars. There are also instances of shoddy work and diversion the money to administrators' personal businesses. As a result, it has been observed that even some newly-constructed buildings have collapsed and the losses caused to the schools and the governing bodies are huge. These incidences are not confined to a particular country or place but found in most of the countries.

With such experiences that both government and private sectors are grappling with to maintain sustainable development and school change, school leadership is being compelled to have financial integrity through accountability so as to eliminate corruption and embezzlement of school resources (Mpaata, 2015).

### **1.1 Meaning of Finance**

Finance is a term that refers to the management of monies. It is the science of managing funds which is deeply rooted in the discipline of economics. Finance from the perspective of schools emphasizes on systems through which school funds are generated, credited debited and invested (Mpaata, 2015; Pandey,2005; Pandey, 2001).

### **1.2 Financial Management**

It is clear that schools cannot operate smoothly without finances. Schools need a lot of funds to facilitate their activities so as to function effectively. These funds are supposed to cater for general welfare of the schools smooth functioning with regard to purchase of books, construction of new buildings, payment of salaries, procurement of equipment and other activities of institutions (Musaazi, 2005).

Financial management is one of the protuberant management activities that is concerned with planning and controlling of schools' financial resources. Financial management is one of the essential responsibilities of school leadership and managers. It is a form of taking responsibility for their actions and achievements in exchange for greater managerial discretion over their inputs. Thus, the school's management team is responsible and accountable for its performance. Van Wyk (2004) states that the essence of financial management in the public sector and school is to boost the management in the proper allocation and utilisation of the resources at their exposure with the purpose of ensuring schools' financial stability in both efficient and effective ways of delivering outputs required to achieve desired outcomes that will serve the needs of the community (school).

It is a discipline which has gone through various evolutionary stages in its development. It was a considered a branch of economics until the late eighties when rigorous research about the subject was conducted and it became an independent discipline in the field of management (Pandey, 2005). The subject still draws largely from the field of economics, especially in terms of its theoretical and conceptual frameworks.

'Financial management' had previously been primarily a major phenomenon towards school change in many parts of the world, the global attention towards educational reform and school accountability have shaped a new global interest in school's financial management (Bisschoff & Sayed,1993).

### **1.3 Changed role of school administrators**

The concept of financial management has received a great and immense interest from the researchers in the fields of management and educational leadership. This stems from the need for correctness in the crucial decisions made by the school management in accordance with the requirements set forth by parents and other stakeholders within the educational arena (Pandey,2001, Hallinger,2012). The accountability for decisions is ever-increasing. Moreover,

with the increasing rise of the knowledge economy and the quest for school heads to run schools as business entities, there is no way school principals can avoid to take decisions that are related to finance and understanding its theories that can provide them with insights on both conceptual and analytical decisions skilfully (Rosnani, 2015, Panday, 2001& Scott, 2000). These recent movements have not only led to an increasing focus on learning outcomes of students and schools but have also mounted pressure on principals to be accountable for all the resources they manage for schools. It is accordingly essential for them to have relevant knowledge about this discipline.

Prior to the massive increase in enrolment of students in schools over the years, head teacher's role was mainly to lead and supervise school's educational activities with limited involvement in the financial decision making, if any. This was mainly because of the fact that the schools were funded by the state or other public bodies in previous decades and did not involve any management of fee. Financial management was in the hands of these governing bodies too with school administration having no involvement in that. However, due to the massive change in political and social circumstances over the years, financing schools has become a great challenge for the government, school administrative bodies and parents (Musaazi, 2005). It is for this very reason that many governments have decided to partner with private section in running the schools and providing educational opportunities. Governments and private sectors support schools in terms of grants, project aids, staff welfare and students' scholarships. The funds provided to schools by government and public funders are generally given to meet students' and teachers' needs, development and improvement of school infrastructure, payment of allowances, housing and other relevant aspects. Many parents have also picked interest in their children's educational opportunities and also contribute to funding process. Governments and parents play this important role with an aim of having a healthy and suitable environment that can help both the teacher and the learners to meet the stakeholders' interests. It is therefore important for these funds to be distributed equitably so as to achieve the welfare of all departments and units and later provide the accountability reports to the principal. For such reasons, the responsibilities of school heads today have also been widened and now includes accountability towards the proper management of funds that are at their disposal.

In addition, with the emergence of the 21<sup>st</sup>-century demands towards school change and reforms, the legacy of the school's effectiveness and efficiency has been institutionalized in the term "school change" into the vocabulary of educational leadership and management. School change is espoused with many elements and dimensions for enhancement of change. It is achieved through execution of leadership roles towards addressing the modern demands of effective teaching and learning. The dynamic changes in the recent past, have influenced school management more prominently than ever before.

The modern changes are far different from those of the past decades due to the fact that they encapsulate issues like accountability, massification, changes of management styles from collegiality to CEO-like management, customer demands and quality output. The today's school principal is not only the principle but also the Chief Accounting Officer for the school. Accountability standards are now in place in order to maintain sustainable development and effective performance (Risku & Kanervio 2011). However, the most important of responsibility of the principal is to ensure that school business is facilitated well through proper budget allocation and provision of resources with due consideration towards school's financial

management systems. It can also be presumed that the chain of changes, especially from the financial management perspective, will continue to become even more intense as pressure for change increases (Kanervio & Risku 2009).

These changed requirements has also led to school reforms in many countries with the objective of making education providers more responsive and accountable for the efficient and effective use of resources (Education Review Office, 1994; Picot Report, 1988).

The purpose of this paper is to illuminate the current thinking about financial management and assess its relationship with school change management. More specifically, it seeks to present an overview of financial management process from conventional and Islamic perspectives.

## **2 SCHOOL FINANCIAL MANAGEMENT AND OTHER MANAGEMENT FUNCTIONS**

### **2.1 School Financial Management**

School financial management encompasses budgeting and implementation of a financial plan, accounting, reporting and the protection of assets from loss, damage and fraud within a specific period of time. Many of these aspects of financial management cycle are usually more concentrated in the closure and opening of the school calendar year. Though some variations exist from country to country, school principals, in most cases, are given autonomy to regulate their financial management with internal rules in line with the international standards so as to avoid misuse and risks in the internal control systems. The school leader, as chief accounting officer, is responsible for putting in place the internal controls and internal auditing systems to ensure that the funds are spent in accordance with the school's budget guidelines (BissChoff & Mestry, 2003). Another responsibility of the principal is to provide annual reports of the previous financial plans explaining the achievements and losses encountered. It is important to note that financial management and other school activities are intertwined into each other and are mutually supportive (Pandey, 2005). Thus, the reporting process of school's affairs is linked to the planning process, the definition of objectives and measurement (Van der Westhuizen, 2003).

#### **2.2 2.1.2 Role of a school principle in financial management**

In a study carried out by Mestry (2006) on financial accountability and principals and governing bodies, it was established that many of them had little knowledge on the concept of financial management. And as a result, many schools were victims of mismanagement or misappropriation of funds in the form of embezzlement, fraud, and theft. This continued to happen despite the interventions from the government. This emphasizes the need for the school principals to understand their responsibilities, especially those that are related to financial management, and then actively pursue to achieve the associated objectives.

The school principal is considered to be the chief accounting officer of the school. His responsibility is somehow similar to the commander in chief of an army unit. He is the pinnacle and the heart of the school management system (Musaazi, 2001). His administrative roles and duties are supposed to be reflected in his personality, ideas and thoughts so as to move his human resources in the desired direction (Watt et al., 2002). It is therefore imperative that a

school principal and his team take decisions that are value-adding and can lead to successful attainment of the educational goals (Marishane and Botha 2004).

As the education systems continue to become more comprehensive and diverse in nature, the role of the principal also goes beyond the known traditional management responsibilities. Therefore, the role of the principal in facilitating his team and associates to place high ideas before the students and stakeholders becomes paramount (Chaube&Chaube, 2001). This encompasses all aspects of school management including the financial aspects. The school head is supposed to mobilize funds and projects that can help teachers and learners in achieving the objectives of both the school and parents. Ensuring accountability is among the key duties of a school leadership. Thus, the school principal needs to develop a capacity to effectively work with others in order to ensure that the school has indeed been responsive to the needs of the students, the local community, and society at large. Other roles of the principal are outlined below:

- The principal is supposed to study both the economic and social challenges that have erupted in the society and play an onerous duty of moral protection. He is supposed to understand that his work should be a positive reflection to both students and teachers by avoiding any kind of corruption within his duties and jurisdiction.
- As a chief accounting officer, he is supposed to ensure that there is regularity in all school business and dealing both within and outside community as per the school policies. It is indispensable for the (school) principal to ensure that he comes to grips with knowledge and understanding of the basics pertaining to processes of managing the school's accounts, the budgeting process and the control systems that are necessary to deter the misappropriation of school's monies.
- For the smooth running of the school's affairs and funds, it is recommended to always have a finance committee which should be composed of both members of the governing body and some of the school staff. The finance committee and the governing body are supposed to work collaboratively for effective and efficient financial management after going through a thorough training in financial management skills. The principal should take active role in forming and facilitating the finance committees.
- Nevertheless, Marishane and Botha (2004) elucidate that management at school level is a mechanism that facilitates school improvement in terms of decision making, autonomy and delegation of powers from the central governance to school leadership to budget in accordance with their business plan and school mission. This activity should be a joint responsibility for both the school management team and governing body. It therefore important to note that the role of the principal and governing body is to ensure that the school takes rightful investment decisions and finance them to ensure that the school objectives and goals are achieved as planned.
- He is supposed to oversee that school's funds are spent as per the policy, intended budgets and business plan.
- Mestry (1999, 2004) states that a good policy does not only identify and articulate the values and the basic principles that address specific needs of the school, rather it should set and give direction. Thus, the participatory role of all stakeholders

becomes crucial in the drafting and implementing of all school financial management and other policies.

- He is supposed to ensure regular reporting of financial activities. These reports should provide details about from where and how much funds were received, where they were spent and how did they align with the school budgets and identified projects.
- The principal should ensure that the school budget is only spent on the matters that are of value and the resources given in his hands should not be wasted on non-value adding activities
- Proper financial records and accounts should be stored appropriately and retrievable for auditing purposes
- Risk management and foresighting the opportunities should not be overlooked by the head of the schools (CFE,2014)
- The principal is supposed to be aware of the schools' assets, revenue, budget, expenditure, and auditing requirements.

### **2.3 Teachers' role in financial management**

It is also important to note that even if the head teacher plays his part well, however without involving the staff especially the teachers in the day to day running of school business, little or nothing can be achieved. For instance, in a study conducted in South Africa, it was found out that teachers' participation in financial decision-making issues was instrumental in enhancing teacher commitment, expertise, and ultimately, learner achievement (Benghu & Newame, 2014; Wadesango 2012).

For a head-teacher to find the system welcoming and suitable to sustain in terms of school development, it is important for him or her to employ democracy, accountability and maximum co-operation, participation, inclusion, consultation, and partnership with his staff so as to underpin leadership and management and inclusive governance (Legotlo 2014).

## **3 The Islamic Perspective on Financial Management**

The Islamic state and government institutions, over the decades after their establishment, evolved into celebrated systems that likes of which were never seen the history of human civilization before. The principles set by Islam are timeless and if we apply them to our institutions and our personal lives, we can reap the same fruits as our forefathers did.

Following is an overview of some of the financial management processes followed by the Prophet and the companions. We have also derived some guidelines from these processes that can benefit the school administrators in reforming their financial management processes.

- A. When the Islamic message began to be propagated in Mecca, there were no clear means through which resources and finances could be derived from. Everything was dependent on voluntarism of committed individuals. For instance, Darul Arqam was donated by Al arqam Ibn Al arqam to serve as a propagation and meeting center. In these early days of the prophethood, Muslims, led by our beloved Prophet ﷺ at the forefront, made a lot sacrifices to meet the financial requirements associated with the Dawah for the religion of



Islam and protecting it from its enemies. These sacrifices were physical as well as financial. The prophet's wife, Khadija R.A. gave a large portion of her wealth to facilitate the projects that Islamic movement was undertaking at that time. The most noble of the companions, Abu Bakr R.A., donated all his belongs for the sake of Allah. Umar R.A. brought half of all his possessions when the call for donations was made. We see Uthman and other caliphs making enormous financial contributions too. Abdur Rahman ibn Auf sacrificed 7000 camels to meet the finance of the Muslim expedition. This spirit was not restricted to the well-off alone; rather the poorest of the society were also at the forefront in ensuring the financial stability of their state. Even those whose only possession was a handful of dates did not restrict themselves from donating their only possession in the path of Allah SWT.

- From this, we conclude that the stakeholders involved in running schools (which includes administration, teachers, government, parents, community and others) should generously donate for the well-being of schools. The school infrastructure should not be left to get destroyed because of the lack of funding.
  - The school administration should seek mechanisms for engaging with funders to ensure that they understand the financial requirements of the schools and donate generously to support the associated objectives.
- B. We also see the concept of brotherhood between the Muslims. The Ansar and the Muhajiroon became brothers in Islam. The Ansar divided half of all their possessions and gave to their Muhajir brothers in order to financially stabilize them. The Suffah was constructed to cater for the new converts and migrants to Madinah. This was an asset for the state to house the needy ones from the society and also to act as a learning center.
- From this we learn that if any schools (or any other institutions) are in a position to support other institutions and organizations, they should be very keen to do so. As members of Islamic community, we should all support each other as individuals as well as organizations. Schools are no exceptions. This concept has become even more important nowadays under the term corporate social responsibility which many companies readily adopt.
  - In addition to other organizations supporting schools, schools can support each other too. They can get connected in the form of a network and have a pool of shared resources so that the community as a whole can benefit from their mutual efforts.
- C. This constitution set forth in the state of Madinah provided avenues from which this newly established state was to attain its revenues. Financial and legal institutions of money and financial management were established. As the state became established, Muslims attained wealth from both business merchandise and agriculture. Zakat was introduced for Muslims and non-Muslims were asked to pay Jiziyah for facilitating state affairs. In addition, it was from this constitution, that both the Jews and the Muslims in Madinah were required to pay for the military costs so as to strengthen security at Madinah in case of any attack.
- The schooling and other similar projects are for the whole community and everyone, irrespective of their faith, should actively engage in supporting such projects.
  - Community members should pay a fixed amount towards the well-being of their educational institutions so that the schools can receive a sustained inflow of resources which they can use for important school projects and maintaining service levels.

- Schools can also find avenues that can lead to funds generation. This can be in many forms e.g. providing room-hire services, lending school facilities for community events, starting businesses which financially support schools and other initiatives.
- D. Volunteerism was promoted in the society in general, and particularly in education. Abdullah ibn saed Ibn Al 'Aas was tasked by the Prophet ﷺ to teach the young children but his services were not paid in any monetary form. We also see many other examples where Muslims actively participated in the voluntary activities where no worldly remuneration was involved.
- Schools should promote volunteerism. Volunteers not only provide free of cost services to the school, but also contribute to the greater good of the society in terms of nurturing a culture of joint vision, sacrifice, commitment, mutual support and ownership.
- E. After the conquest of Khaibar, the Prophet ﷺ divided half of the land to cater for community welfare. Abu Dawud reports that "The Prophet ﷺ separated part of the land of Khaibar for hosting delegations of visitors and for public affairs needs, whereas half was divided among the soldiers." Khaibar was turned into a farming place and part of the income generated from it was used to finance state affairs (Ibn Kathir)
- This also emphasizes the efficient utilization of school resources. The resources should be used in a manner that they should provide maximum return for the schools.
- F. Another important aspect was public borrowing. Public borrowing was legalized among the Ummah. The Prophet ﷺ used this method in some instances to meet the solutions of the Ummah and the Prophet ﷺ himself borrowed from others. For example, while mobilizing resources for the battle of Hunayn, the Prophet ﷺ asked Safwan, who was not a Muslim, to lend him his shields. The Prophet ﷺ told him that he was simply borrowing with a guarantee that it would be paid by the Ummah. In another instance, the Prophet ﷺ borrowed money from Abu Rabi'ah.
- In accordance with this, the schools can also borrow money from the community, if the donations are not available. We see many examples of this worldwide. For example, some of the Australian Islamic schools run through the community superannuation funds which are returned back to the community when the community members need them.
- G. When the state treasury was incapacitated, the prophet would also ask some shabahah to pay their zakat in advance. For instance, he asked his uncle Al-Abbas to pay his zakat in advance for two years.
- It means that those who contribute financially to school, as regular donors or parents depositing the fee, can also do so in advance to provide school with funds necessary to do certain projects at a particular time.
- H. Another source of revenue was the Awqaf (endowment). These endowments were developed into state institutions for supplementing state income. For instance, Uthman ibn Affan was asked to buy the source of water for the ummah and other similar items to support the income.
- Community members can use such a system to support schools too.
- I. The early Islamic caliphates extended the boundaries of empire far and wide to areas such as Iraq, Syria and Egypt. These territories had their own income generation resources and their citizens were already accustomed to taxes. The caliphate of Umar R.A. did not stop people from paying taxes. Similarly, the land available there was also used for generating revenue through hiring and leasing land to those who would wish to use it for agricultural



produce. To arrive at this decision, Umar Ibn Khattab R.A. consulted Ali Ibn Abi Talib who consented that the state land should indeed remain as government asset for generating more income.

- This further highlights the points clarified earlier in relation to the optimum management of school resources.
- J. It is from the practice of the Caliphs to pay the salaries for the state works, especially for nursing babies, from the state fund.
- In Islam, teaching is considered to be a form of Ibadah and those who wish to do this voluntarily earn huge rewards. However, the teachers are required to feed their families too and need to have a source of income. This case is no different to soldiers who fight for a country. In Islam, as mentioned above and as shown from the Sunnah of the Prophet ﷺ and his companions, the state should pay for the salaries when it can and where it is necessary. Accordingly, the schools can also pay for the staff salaries from the school fund.
- K. After the four caliphate periods, the Ummayyad state allowed the revenues to serve the regions where it was levied from. This was because the state had grown wide and could not cater for each region's affairs. The only solution was to decentralize powers and resources to benefit individual regions.
- The governing bodies of the schools can also decentralized the decision making process and give more freedom and responsibility to individual schools.

#### 4 CONCLUSION

As schools are increasingly operating as financial institutions, emphasis on financial management processes increases accordingly. Given the fact that financial management today is a key challenge for schools, training and development interventions are required from the governments. The scope of this aspect of management is now more broad than ever. As the educational needs for the 21<sup>st</sup> century are increasing, so are the needs for funds to manage them. Islam provides us some very clear guidelines regarding how to effectively manage the financial systems for the organizations and we can all assess ourselves against the criteria put forth by it. No one can deny the importance of effective financial management processes for schools and it is imperative for school management and governing bodies to take steps to ensure its implementation in accordance with the international guidelines and Islamic principles.

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